

January 20, 2015

To: Chairman Edward Greef and Members of the House Local Government Committee
Representative Zac Perry
Senator Dee Brown

From: Susan M. Nicosia, City Manager, City of Columbia Falls

Re: HB 224 An Act Revising Laws Governing Certified Local Government Building Code Programs; Allowing a Local Government to Accumulate Fees and Charges Necessary for Building Code Enforcement for an Increased Period of Time; Providing That Rules Adopted by the Department of Labor and Industry May Not Require Additional Audits of Local Programs; Amending Sections 50-60-106 and 50-60-302, MCA

Please support HB 224. These amendments are necessary to provide adequate and stable financial resources for the City's Building Code Program. As you can see on this chart, building permit revenue has a "feast" or "famine" cycle:

Fiscal Year	Permit Revenue	# permits	Residential Value	Commerical Value
99-00	\$ 112,572			
00-01	\$ 95,432			
01-02	\$ 40,850			
02-03	\$ 119,291			
03-04	\$ 149,364			
04-05	\$ 144,239			
05-06	\$ 151,441			
06-07	\$ 135,697	92	\$ 11,995,791	\$ 635,299
07-08	\$ 116,412	74	\$ 7,895,864	\$ 3,670,950
08-09	\$ 59,799	48	\$ 3,867,683	\$ 1,245,032
09-10	\$ 51,609	39	\$ 2,951,689	\$ 1,827,604
10-11	\$ 39,463	34	\$ 1,617,705	\$ 1,772,400
11-12	\$ 49,520	36	\$ 930,919	\$ 3,694,797
12-13	\$ 42,424	41	\$ 2,644,079	\$ 237,380 6 mnths, min payt
13-14	\$ 105,418	55	\$ 5,592,207	\$ 3,245,000 3 months, min payt
14-15 YTD	\$ 70,739	31	\$ 4,829,635	\$ 2,373,800 no bldg permits in Jan as of 1/20

The City of Columbia Falls is fortunate to contract with the City of Whitefish to provide certified building inspectors. Based on the cycle above, the City could not financially maintain certified inspectors, particularly certified in all areas: building, electrical, plumbing and mechanical. Our contract with the City of Whitefish provides 65% of the permit revenue to be paid to the City of Whitefish for the review and inspection services. Beginning in 2012-13 FY, the contract was

amended to provide a minimum payment of \$2,000/month or 65% of the permit revenue to be paid for the services. The minimum payment was necessary as the City did not generate enough revenue to cover the cost of services provided. Many years, we do not issue any major permits in the winter months (Jan – April), therefore not generating new revenue, while the inspection/labor costs continued. Once the permit is pulled, a residence can take an average of 6 to 9 months to complete and commercial permits vary but can be up to two years before they are complete.

Amending the code to allow cash carryover equal to two years' worth of expenditures will allow the City to maintain the resources to properly fund the Building Permit program. This will allow the City to avoid using General Fund appropriations to pay for the Building Permit program shortfall during the lean revenue years. The City has never had to reduce permit revenues to reduce the cash on hand or to avoid having excess cash on hand.

The two year appropriation cash reserve is also applied to the Local Charges for Services Fund provided for in 17-2-301, MCA; therefore, applying it to the Building Code Enforcement Program is consistent with other fee for services programs provided by cities.

Additionally, the Comprehensive financial and compliance audit completed under 2-7-503, MCA is sufficient to audit compliance with the Building Code Enforcement Program requirements. The Department of Administration Local Government Services Division publishes compliance requirements for audits of local governments in Montana. The compliance supplement provides the detailed information related to the Building Code Enforcement Program. The City pays \$11,500 for the City's Annual Financial and Compliance Audit of the City and then must pay an additional fee, \$900, for the separate Building Code Enforcement Program "agreed-upon procedures engagement" report. Some cities pay considerably more for this separate report. The purpose of the state and federal "single audit," is to provide an audit of the entity without multiple or overlapping audits. The audits completed under 2-7-503, MCA should be sufficient to satisfy the Department of Labor Building Code Bureau. Audits completed under 2-7-503, MCA are done so in accordance with Governmental Auditing Standards. Other programs governed by the state, such as Gas Tax, are satisfied with the single audit to provide compliance testing, without the issuance of a separate engagement report. For the 2014 FY, the building permit program revenues totaled \$107,012 or 1.89% of the City's total \$5,571,164 in revenues. The DOL Building Code Bureau requires the agreed upon procedures report to be completed for any city with a certified building enforcement program that had a building code program reserve fund balance of \$10,000 and had building permit revenues of more than \$10,000. The cost of issuing the report is not contingent upon the reported dollar amounts but rather the requirements to complete the engagement in accordance with the American Institute of Certified Public Accountants standards.

Please support HB 224. These changes will provide more stable funding of the Building Code Enforcement Program, allowing for the carryover for the lean years, and will avoid unnecessary expense by relying on the single financial and compliance audit of the City to ensure compliance and not requiring a separate audit report.